

BUDGETARY DECENTRALIZATION AS A FACILITATING MECHANISM OF REGION FINANCIAL INDEPENDENCE

O. Bondarevska.

Poltava National Technical Yurii Kondratiuk University

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Introduction. In the current conditions of country economy transforming the problem of relations between the center and the regions acquire significance. The problem arose because of the gap between revenues and expenditures of local authorities to carry out their own powers. Regions can not ensure economic and social development at the expense of their own income, and acceleration of financial fiscal decentralization is able to influence the regional development and to form the financial self-sufficiency of local communities, to optimize the processes of redistribution of budgetary resources among regions, to enhance local economic development, to provide public services in the population legally prescribed level, to solve social problems.

Review of recent researches and publications sources. Such national and world researchers as M. Bell P. Musgrave, W. Oates, Ch. Tibo, V. Andrushchenko, D. Boholepov, Yu. Humeniuk, A. Suntsova, V. Fedosov, S. Yurii and others devoted their works to the problem of budgetary decentralization. Scientists prove that the real financial autonomy of local authorities can be achieved with effective decentralization and allocation of financial resources.

Problem definition. Purpose of the article is determination of the nature, forms, advantages and disadvantages of budgetary decentralization implementing in Ukraine.

The basic materials and results. The providing of the region economic safety with increasing of budgetary decentralization is one of the priorities in the modern stage of Ukrainian development. The limited revenue of sources and high financial dependence of local governments on the decisions of the central government, unclear division of expenditure responsibilities and reduced responsibility for spending of budget funds, as well as different levels of socio-economic development of the areas, their production and financial potential, climatic conditions, ecological status cause the need for decentralization in Ukraine.

Decentralization in its purpose should be aimed at optimizing relations within the budget system, among the state budget and local budgets (vertical relationship) among local budgets (horizontal relationships), the redistribution of the budget among "rich" and "poor" areas, as well as providing with financial alignment of budgetary capabilities of state and local governments. Conceptual principles of the budget system depend on the economic system of the state. In totalitarian countries the state budget takes the central place, while the local budgets are of secondary importance. In the budget system of democratic central government budget and the budgets of local authorities operate within a budget system and the role of local budget increases. For the budget system of Ukraine is characterized fairly high degree of centralization of budgetary resources, indicating a lack of local government development and the weakness of its financial base.

Therefore there is a need for studies of region financial security and improvement of the transmission mechanism of central budgetary resources from the state to local authorities in order to maximize its use. World experience of management suggests that the best economic, social and political status of region can be provided by local authorities. At the same time, it is exactly the local authorities should create favourable conditions for economic growth, use all the levers for investment, enterprise development, small and medium enterprises, promote job creation and growth of self-employment. The welfare of local residents guarantees for the replenishment of local budgets, the growth rate of government revenue, and therefore and the welfare of the country, depend on the solution of these questions.

The transfer of authority to the field, increasing the capacity of local governments and expanding its powers, transferred to the "center on the lower level of local communities" on the principles of subsidiarity, are the objective basis of decentralization, and, at the same time, an integral part of the process of sustainable economic development [1]. Decentralization foresees the local government to get as much power (backed by resources) as local authorities can actually implement to fulfill its duties. Among the topical issues that should be decided by decentralization are:

- involving citizens into solving pressing issues of local development;
- increasing of public consciousness as "masters" of the territory, they live in;
- searching and using of the domestic resources for regional development (those that are in the area);
- the introduction of effective incentives and leverage, oriented to stimulate economic growth in communities.

Thus, decentralization covers a huge range of activities – from the development of the citizen political consciousness of civil society to address the economic development of a territory. However, the issue is particularly relevant study of the economic aspect of decentralization is how decentralization impact on stimulating economic growth regions of Ukraine. Successful resolution of this issue depends on the country out of crisis, socio-economic stabilization and economic growth, the success of regional development and economic growth of the national economy as a whole.

The term "decentralization" is multifold one. In theoretical and practical researches it is examined in different ways. At the semantic level decentralization (from Latin de – «opposition», centralis – «central») is treated as destruction, weakening or abolition of a centralized system and the enlargement of its components.

The development of the decentralization theory was carried out by foreign and native scientists such as M. Bell, T. Bezverhniuk, D. Boholepov, H. Panikar, L. Petrenko and others.

Scientists identify several types of decentralization, which have special features, implications, conditions of realization and they can be applied both independently and in conjunction with one another, in various forms and combinations, both within the country and in some sectors of the economy [4], namely spatial, political (democratic), administrative (bureaucratic), economic (market, financial, fiscal, budgetary) (Figure 1).

Nowadays the study of the financial and, in particular, fiscal decentralization takes on special significance. Fiscal decentralization is a process of redistribution of functions, powers, financial resources and responsibility for their use among central government and local authorities. Its main goal is to reach financial independence of local government areas by providing the necessary financial and material resources to ensure maximum performance and availability of public services for the population, improving governance, increasing mobility and effectiveness of local government tasks. Budgetary decentralization is a part of fiscal decentralization as the main instrument of the regions autonomy.

The problems of fiscal decentralization in the period of economy transformation were considered by V. Andrushchenko., H. Wozniak, Yu. Humeniuk, A. Suntsova, V. Fedosov, S. Yurii and others.

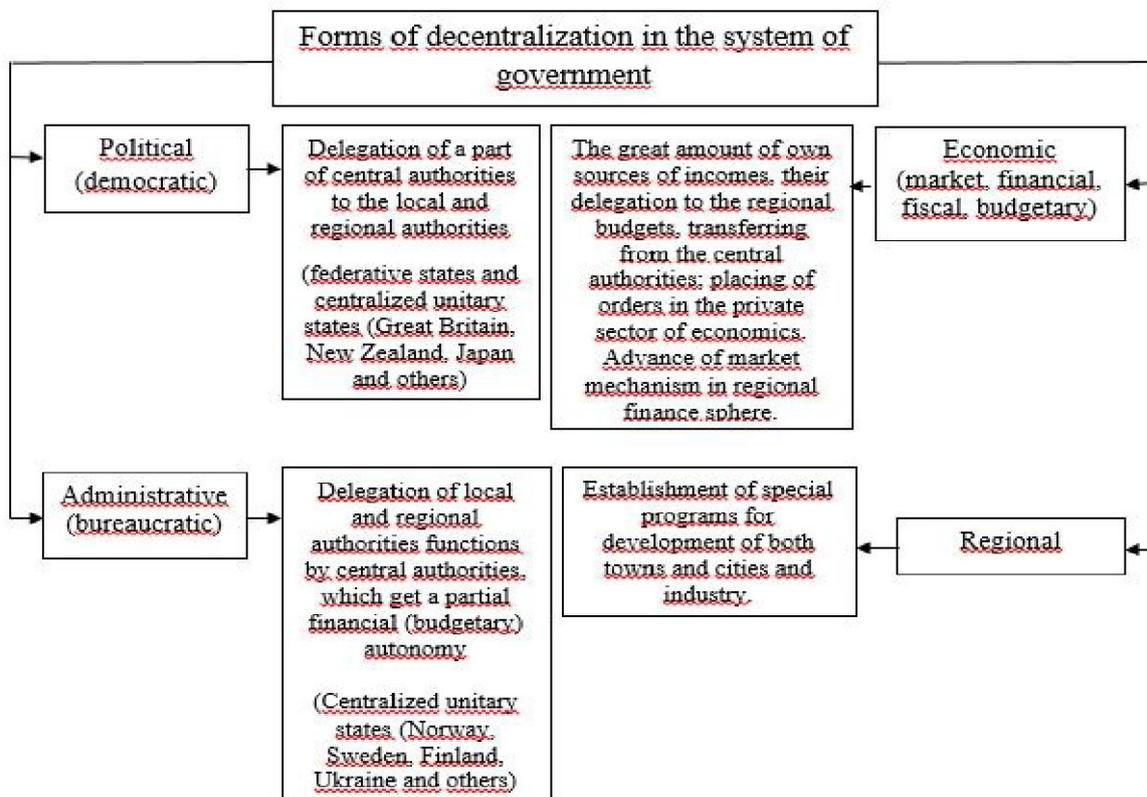


Fig. 1. Forms of decentralization in public administration

Compiled by the author of the source [4]

In Ukrainian financial terminology the term "fiscal decentralization" is treated as the transfer of the rights, competences, responsibilities and financial resources in the public sector from central government to local governments [6]. Foreign financial science defines this concept quite broadly, noting that fiscal decentralization («fiscal decentralization») is the mobilization of financial resources in the revenue part of local budgets.

The founder of the fiscal decentralization was an American economist Charles Tibu who justified it in his book "Economic Theory of Fiscal Decentralization in Public Finances: the Need for Sources and Use". Later Charles Tibu's ideas were developed in the works by such foreign researchers as B. Oates, R. Musgrave, W. Schumacher, B. Fry, R. Ayhenberh and other researchers [5].

On the basis of an economic model typology such forms of decentralization as delegation, devolution and decentralization are defined [2].

Deconcentration is the simplest form of decentralization because it does not include any transfer of powers to local authorities. It is only the expansion of the of local administrative authorities jurisdiction, acting within the competence of their own and to some extent independently of the central government, although being appointed by the central government.

Delegation involves the transfer of some powers of government to be performed by the local authorities, with funding challenges which are provided by the government through the allocation of transfers.

Devolution is the statutory delegation of powers from the central government of a state to govern at a subnational level such as a regional or local level. Local authorities are responsible providing and funding some national authority (usually a social purpose) by the funding sources, which in this case are usually some taxes and fees, but not targeted transfers from state budget as in the case of authority delegation.

Fiscal decentralization is conditioned by the desire of central authorities to improve the system of governance. The central government tries to limit its activities, acting strategic management functions, as well as national functions that are difficult to differentiate relatively the needs of a particular citizen, who lives in a particular area. Accordingly, the central government tries to "liberate" themselves from functions, the essence of which is to provide services to the public, which require consideration of citizen needs regardless of place of residence, ethnicity and traditions. However, local governments do not have sufficient funds to implement its new budgetary powers. The share of local expenditures for implementation of their powers in Ukrainian local power administration is the lowest in Europe.

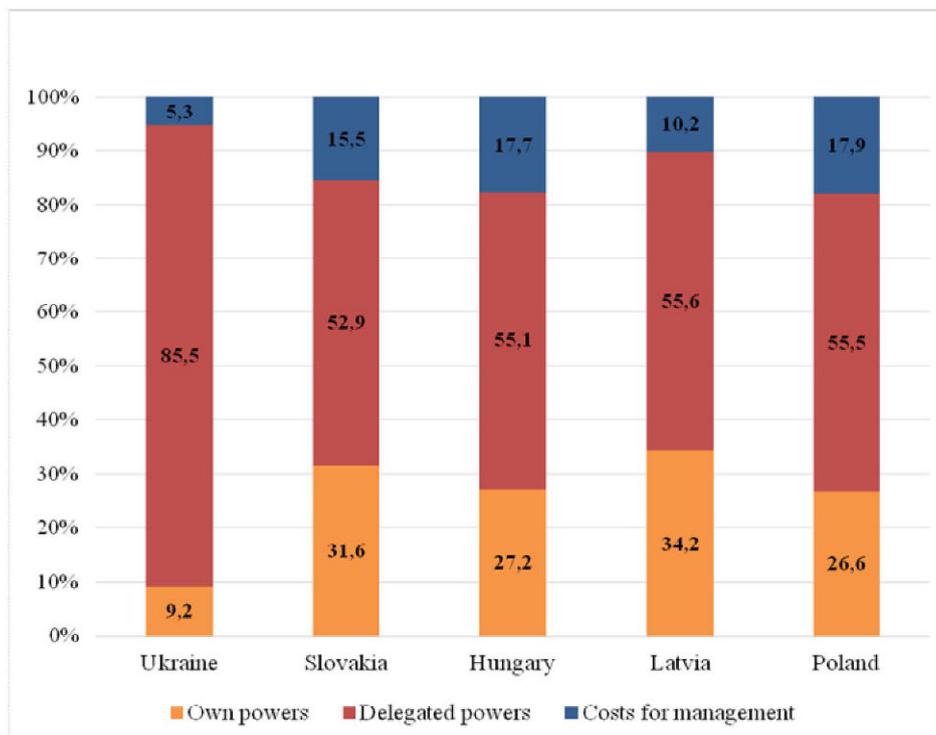


Fig. 2. Structure of expenditures of local budgets for implementation of LPA [7]

The transition from a centralized system of budget transfers to decentralized system is caused by the presence of a number of significant drawbacks in financial centralization, including limited impact of local

government on formation of budget revenues, the impossibility of expenditure predicting for the future, lack of motivation to increase the revenue base of local budgets, lack of transparency of distribution of grants to local budgets, lack of responsibility for the execution of local budgets and more.

At the same time, fiscal decentralization including both political and economic aspects should provide a number of advantages over centralized system [3]. However, while its application it is advisable to pay attention to disadvantages of this process (Table 1).

Table 1

Advantages and disadvantages of fiscal decentralization

Advantages	Disadvantages
1.Possibility to save macroeconomics stability	1.Intensification of level differentiation in region socio-economic development
2.Increasing of horizontal and vertical budget competition	2.Minimization of the budget control efficiency by central authority at the regional level
3.Providing financial autonomy by optimization of revenue sources and improving tax administration	3. Problem of coordination local needs of regions with state macroeconomic objectives.
4.Stimulation of local authorities to build their own budgetary capacity	4.Low qualification of managerial staff of local authorities, the dominance of personal interests over the public, the inadequacy of local budgets goals and objectives of socio-economic development
5. Rational use of budget funds, minimization of budget deficit.	5.Increase of expenditures for providing with public services for small areas in the case of the spread of "economies of scale"
6. Closeness of local government to the people	
7. Increasing of LPA responsibility to the community	
8. Investment activation	
9. Providing with a certain level of public services	

The main achievement of the current phase in Ukrainian decentralization is the increase of real financial regional resources that is confirmed by the dynamics of Ukraine local budgets and united local communities financial indicators for 9 months in 2015 and 2016.

As the result for 9 months in 2016 the own revenues into the general fund of local budgets increased in 1,4 times or 32,2 billion UAH comparatively with the same period of the previous year and amounted 103,9 billion UAH. Increasing of local budgets revenues in all Ukrainian regions provides predictability and stability, indicating the strengthening of the tax base in the united municipalities.

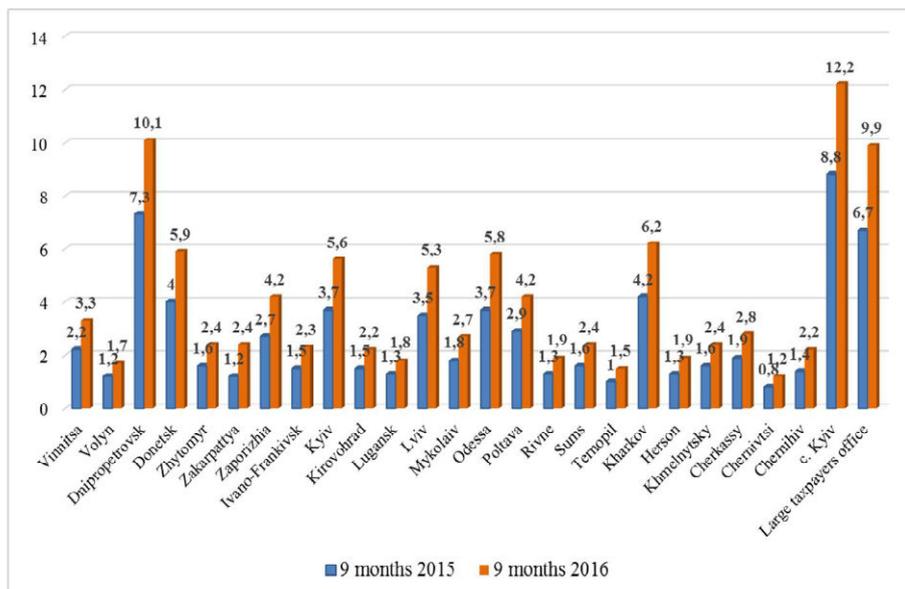


Fig. 3. The local budgets dynamics in regions

The income tax was the main budget-payment, it amounted 55, 5 billion UAH (+18, 3 billion UAH or 49%). Land payment revenues amounted 17, 4 billion UAH (+ 6,7 billion UAH or 62%), single tax – 11,4 billion UAH (+4,0 billion UAN or 54%), excise tax – 8,6 billion UAH (+ 3,0 billion UAH or 55 %), real estate tax – 1,0 billion UAH.

For 9 months 2016 local budgets received from the state budget base grant in the amount of 3,6 billion UAH, educational subvention – 32,5 billion UAH, medical subvention – 32,0 billion UAH, subvention for communities association infrastructure forming – 0,7 billion UAH.

Reverse subsidy to the state budget was transferred by the local budgets. The total sum amounted 2,3 billion; for the same period in 2015 – 2,0 billion [1].

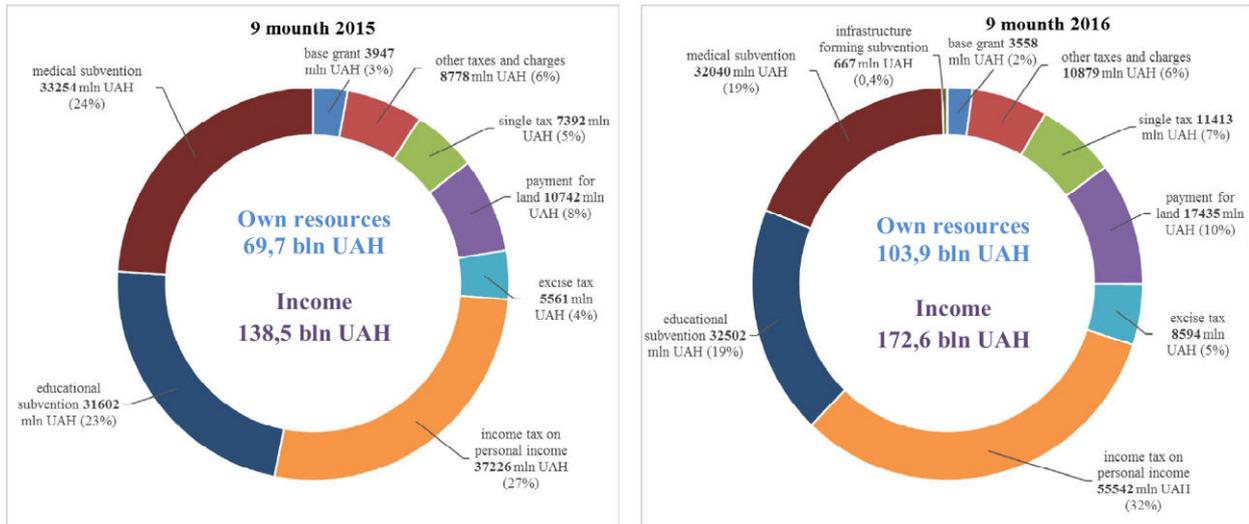


Fig. 4. Actual general fund revenues from Ukrainian local budgets for 9 month in 2015 and 2016

For 9 month 2016 revenues from the general fund of the local budgets 159 ITC (including transfers from the state budget) amount nearly 4, 98 billion UAH. That is 6 times more than for the same period revenues in 2015 to the local councils joined the ITC. Due to the changes in the tax and budget legislation in the context of decentralization, the revenues from own funds of local budgets increased 3 times more (1, 5 billion UAH) comparatively with 9 month in 2015 (from 0,7 billion UAH to 2,2 billion UAH). Income tax on personal income amounted 1197 million UAH (increased 41,3 times more or 1168 million UAH), land taxes – 426 million UAH (increased 41 %). Actual excise tax amounts 272 million UAH (increased 71 %); single tax – 256 million UAH (increased 41 %). Community integration allowed to increase ITC own budget revenues on every resident of the definite territory. The average rate in all ITC increased 1100 UAH (from 518 UAH to 1620 UAH) comparatively with 9 months in 2015.

Reverse subsidy for 9 months in 2016 is 49 billion UAH.

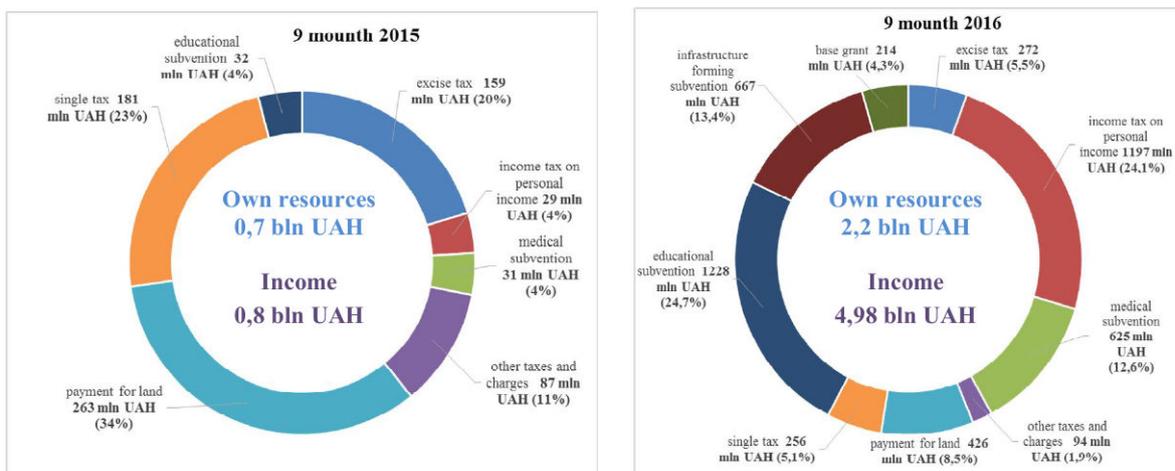


Fig. 5. Implementation of general fund revenues from the 159 integrated territorial communities for 9 months in 2015 and 2016

Revenues from own incomes of Poltava region local budgets for 9 months in 2016 increased 1,5 times more (1,4 billion UAH) comparatively with the same period of the previous year (from 2,9 billion to 4,3 billion UAH). Comparatively with the beginning of 2016, general fund balances increased 922 billion UAH and as of 10.01.2016 amounted 1991 billion UAH, including deposit in banks (747 billion UAH). Reverse subsidy for 9 months in 2015 is 189 billion UAH, for the same period in 2016 – 146 billion UAH [2].

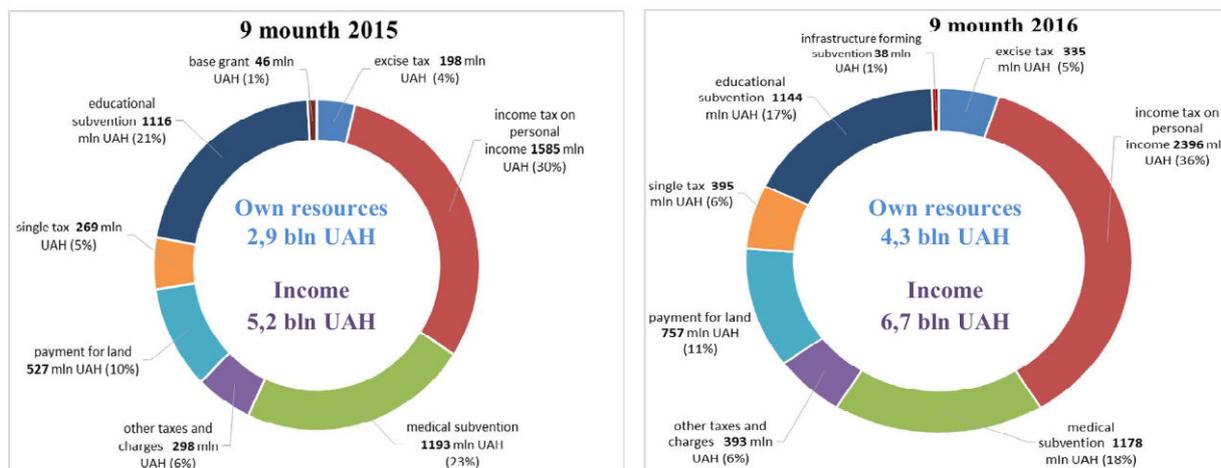


Fig. 6. Actual general fund revenues from Poltava region local budgets for 9 months in 2015 and 2016

For 9 months in 2016 general fund incomes from 12 ITC local budgets (including transfers from the state budget) amounted 383 million UAH, that is 4 times more than the same period revenues to the local council (joined ITC), budgets in 2015. Comparatively with the beginning of the 2016, general fund balances increased 93 million UAH, or 2,5 times more and as for 01.10.2016 amounted 155 million UAH.

Reverse subsidy for 9 month of 2016 is 8 million.

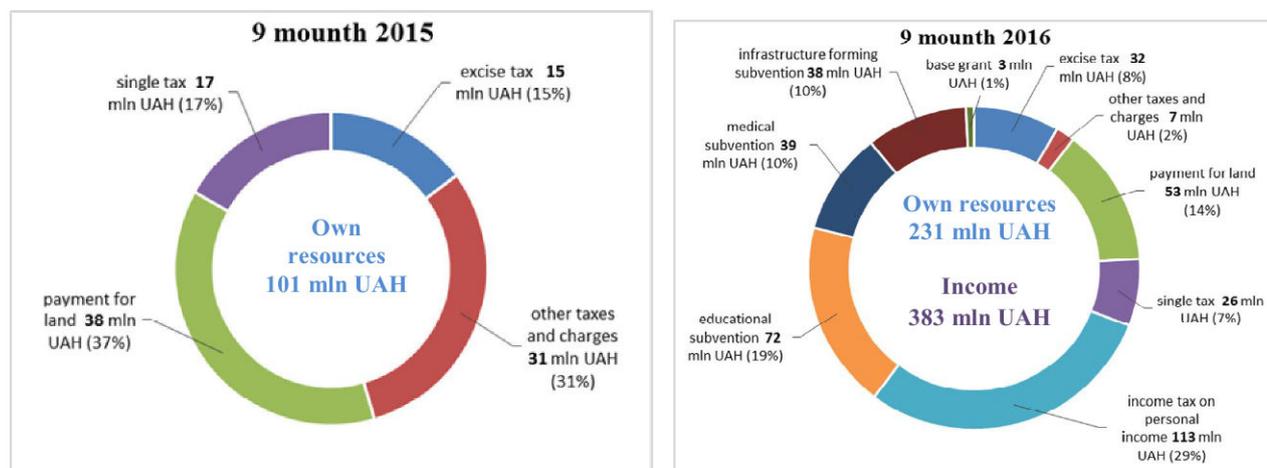


Fig.7. The actual revenues of 12 Poltava regions integrated territorial communities' general fund for 9 months in 2015 and 2016

Analyzing the achievements of reform for 9 months in 2016, it is worth noting the growing number of local budget surplus, the growth of integrated territorial communities' revenue, increasing income per community resident.

Conclusions. Budget decentralization is the key to the local finance effective system formation, regulation tool of regional development. It involves regional stimulation to the financial autonomy, finding of additional own resources, activation of domestic capacity development. Budget decentralization allows to balancing the needs and opportunities of the regions.

The current phase of decentralization in Ukraine is characterized by the growth of regional real financial resources, that is confirmed by the financial indicators dynamics of Ukrainian local budgets and integrated territorial communities in 2015 and 2016. Ukrainian local budgets revenues in the analyzed period increased 1, 5 times (1,4 billion UAH).

The first results of fiscal decentralization in Ukraine indicate that local government received real financial resources for the development of communities.

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УДК 336.15

Бондаревська Ольга Миколаївна, аспірантка. Полтавський національний технічний університет імені Юрія Кондратюка. **Бюджетна децентралізація як механізм забезпечення фінансової незалежності регіонів**. Розкрито основні теоретичні аспекти бюджетної децентралізації як механізму забезпечення фінансової самодостатності територіальних громад, а також суть понять «децентралізація», «бюджетна децентралізація». Визначено форми децентралізації в системі державного управління, переваги та недоліки впровадження бюджетної децентралізації в Україні. Зроблено висновок про те, що соціально-економічний розвиток регіону можливий лише за умов формування правильної державної політики та політики органів місцевого самоврядування, побудованій на засадах децентралізації.

Ключові слова: децентралізація, бюджетна децентралізація, бюджет, принцип субсидіарності, фінансова незалежність регіону, делегування, деконцентрація, деволюція.

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Bondarevska Olha, post-graduate student. Poltava National Technical Yuriy Kondratiuk University. **Budgetary decentralization as a facilitating mechanism of region financial independence**. The article examines the basic theoretical aspects of budgetary decentralization as a mechanism to ensure the financial sustainability of local communities. The essences of the concepts "decentralization", "budgetary decentralization" were identified in the article. Some form of decentralization in public administration, advantages and disadvantages of implementing fiscal decentralization in Ukraine were defined. The conclusion that the socio-economic development of the region is possible only when the correct formation of public policy and local government built on the principles of decentralization was done.

Keywords: decentralization, budgetary decentralization, the budget, the principle of subsidiarity, financial independence of the region, delegation, deconcentration, devolution.

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Бондаревская Ольга Николаевна, аспирантка. Полтавский национальный технический университет имени Юрия Кондратюка. **Бюджетная децентрализация как механизм обеспечения финансовой независимости регионов**. Раскрыты основные теоретические аспекты бюджетной децентрализации как механизма обеспечения финансовой самодостаточности территориальных общин, а также суть понятий «децентрализация», «бюджетная децентрализация». Определены формы децентрализации в системе государственного управления, преимущества и недостатки внедрения бюджетной децентрализации в Украине. Сделан вывод о том, что социально-экономическое развитие региона возможно только при формировании правильной государственной политики и политики органов местного самоуправления, построенной на принципах децентрализации.

Ключевые слова: децентрализация, бюджетная децентрализация, бюджет, принцип субсидиарности, финансовая независимость региона, делегирование, деконцентрация, деволюция.